



*Certified Public Accountants*

## CITY OF MANHATTAN, KANSAS

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SINGLE AUDIT REPORTS AND  
SUPPLEMENTARY SCHEDULES  
YEAR ENDED DECEMBER 31, 2018

CITY OF MANHATTAN, KANSAS

SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES

Year Ended December 31, 2018

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor and Members of the City Commission  
City of Manhattan, Kansas:

**Report on Compliance for Each Major Federal Program**

We have audited the City of Manhattan, Kansas's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

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## **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 21, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*BT + Co., P.A.*

July 13, 2020  
Topeka, Kansas

CITY OF MANHATTAN, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2018

Federal Grantor/Program Title	Federal CFDA Number	Grantor's Number	Expenditures	Amounts Passed to Subrecipients
<u>U.S. Department of Housing and Urban Development:</u>				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants	14.218	B-16-MC20-0009 B-17-MC20-0009 B-18-MC20-0009	\$ 849,697	\$ 94,300
Passed through the Kansas Housing Resources Corp.:				
Emergency Solutions Grants Program	14.231	ESG-FFY2017 ESG-FFY2018	161,889	161,889
Total U.S. Department of Housing and Urban Development			1,011,586	256,189
<u>U.S. Department of the Interior:</u>				
Passed through the Kansas Historical Society State Historic Preservation Office:				
Historic Preservation Fund Grant:				
Sunset Area Historic Survey	15.904	HPF 2017-005	14,700	-
<u>U.S. Department of Transportation:</u>				
Airport Improvement Program	20.106	3-20-0052-044-2013 3-20-0052-048-2017 3-20-0052-049-2018	925,658	-
Passed through the Kansas Department of Transportation:				
Passed through the Flint Hills Area Metropolitan Planning Organization:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	None	168,475	-
Total U.S. Department of Transportation			1,094,133	-
<u>U.S. Department of Homeland Security:</u>				
Passed through the State of Kansas Adjutant General's Department:				
Hazard Mitigation Grant	97.039	FEMA-4319-DRKS-0015	202,729	-
Total expenditures of federal awards			\$ 2,323,148	\$ 256,189

See Notes to Schedule of Expenditures of Federal Awards

CITY OF MANHATTAN, KANSAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2018

1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Manhattan, Kansas (the City) under programs of the federal government for the year ended December 31, 2018. The City's reporting entity is defined in Note 1 to the City's basic financial statements. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position, or, where applicable, cash flows of the City. All federal awards passed through other government agencies are included on the schedule.

2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. The expenditures are recognized following, as applicable, the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF MANHATTAN, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2018

**Section I – Summary of Independent Auditors’ Results**

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	Findings 2018-001, 2018-002, and 2018-003
Noncompliance material to financial statements:	None

Federal Awards

Internal control over major programs:	
Material weaknesses identified:	None
Significant deficiency identified that is not considered to be material weakness:	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a):	None
Identification of major programs:	
<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.106	Airport Improvement Program
14.218	CDBG – Entitlement Grants Cluster: Community Development Block Grants

CITY OF MANHATTAN, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section I – Summary of Independent Auditors’ Results (Continued)**

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as a low-risk auditee:	No

**Section II – Financial Statement Findings**

**Finding 2018-001 Significant Deficiency**

*Prior Reference Number* – 2017-001

**Condition** – While two separate employees prepared the supporting schedules for the bank reconciliation and the bank reconciliation itself, bank reconciliations lacked documentation of review by an individual other than the preparers. Bank reconciliations were not prepared in a timely manner. Bank reconciliations failed to reconcile between the City’s general ledger cash balance and the bank balance.

**Criteria** – Bank account holdings are significant assets for the City. These resources are necessary for the delivery of the City’s services and programs. The bank reconciliation process ensures that the City is accounting for all receipts and disbursements of its funds appropriately in its accounting system.

**Cause** – The controls in place failed to ensure that bank reconciliations were prepared and reviewed timely due to the department being short-staffed.

**Effect** – The City is at higher risk of failing to detect an error or misappropriation of bank deposits. The City’s year-end primary bank reconciliation differed from the general ledger by approximately \$ 10,700.

**Recommendation** – The City should maintain an appropriate staffing level to ensure segregation of duties in the bank reconciliation process. Additionally, the City should follow policies and procedures to ensure that bank reconciliations are prepared and reviewed in a timely manner and are in agreement with the general ledger.

**Management’s Response/Corrective Action Plan (Unaudited)** – The City has enlisted the firm of Allen, Gibbs & Houlik, L.C. (AGH), a public accounting firm, to provide outsourced services to assist with the preparation of the 2019 audit and the review of trial balances and adjustments. AGH is also assisting with the preparation and completion of the bank reconciliations in the interim until additional staff are hired.

CITY OF MANHATTAN, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II- Financial Statement Findings (Continued)**

**Finding 2018-002 Significant Deficiency**

*Prior Reference Number* – 2017-002

**Condition** – The following issues were identified in relation to the City’s payroll process. 1) One of 20 timesheets selected for test work lacked documentation of approval. 2) Employees with supervisor approval rights for their departments could approve of their own timesheets, and employees with the administrator log-on to the payroll processing module had the capability of approving their own time and other employees’ time. 3) While outstanding supervisor approvals were investigated for full-time employees prior to processing, outstanding supervisor approvals for seasonal employees were not followed up on. 4) There was no documentation of review of the payroll register prior to processing. 5) Nine employees, including the employee responsible for payroll processing, had access to both the human resources and payroll systems.

**Criteria** – Payroll expenditures are significant expenditures for the City, and payroll processing is necessary for the continued delivery of the City’s services and programs.

**Cause** – The controls in place failed to ensure that payroll was processed as required due to payroll system settings and lack of documentation of review.

**Effect** – The City is at higher risk of failing to detect an error in payroll processing or a misappropriation of cash.

**Recommendation** – The City should follow policies and procedures to ensure payroll activity is properly approved prior to processing.

**Management’s Response/Corrective Action Plan (Unaudited)** – As part of the restructuring of the Finance Department, the payroll function was transferred to the Human Resource Department. The Human Resource Department will introduce a new payroll system in July of this year (Paylocity) which will address some of the above issues. In addition, there will be greater oversight of the payroll process by the HR Director and her staff.

CITY OF MANHATTAN, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**Section II- Financial Statement Findings (Continued)**

**Finding 2018-003 Significant Deficiency**

*Prior Reference Number* – 2017-003

*Condition* – During the audit, significant adjusting entries were made to the trial balance.

*Criteria* – The number and amount of adjusting journal entries as a result of an audit should be minimized.

*Cause* – The controls in place failed to ensure that all required journal entries were made during the year.

*Effect* – Adjusting journal entries were made as a result of the audit.

*Recommendation* – The City should review its trial balance at year end to ensure that all adjustments have been made.

*Management's Response/Corrective Action Plan (Unaudited)* – As mentioned above, the City enlisted AGH to provide outsourced services to help the City prepare for the 2019 audit and review trial balances and adjustments.

**Section III – Federal Award Findings and Questioned Costs**

None